

ECONOMIC DEVELOPMENT CORPORATION
OF CHIPPEWA COUNTY

BASIC FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <i>Economic Development Corporation of Chippewa County</i>		County <i>Chippewa</i>
Audit Date <i>December 31, 2004</i>		Opinion Date <i>January 13, 2005</i>	Date Accountant Report Submitted to State: <i>March 7, 2005</i>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised 2005.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) <i>Andersen, Tackman & Company, PLC</i>			
Street Address <i>16978 S. Riley Ave.</i>		City <i>Kinchebe</i>	State <i>MI</i>
Accountant Signature <i>Andersen Tackman & Co. PC</i>		ZIP <i>49788</i>	

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Economic Development Corporation
of Chippewa County
Kincheloe, Michigan 49788

We have audited the accompanying financial statements of the business activity and major fund of the Economic Development Corporation of Chippewa County (a component unit of Chippewa County) as of December 31, 2004, for the year then ended as listed in the Table of Contents. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business activity and major fund of the Economic Development Corporation of Chippewa County, as of December 31, 2004, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2005, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The schedule presented in the "Supplemental Information" section are for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson Tackman & Co PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

January 13, 2005

Management's Discussion and Analysis

Economic Development Corporation of Chippewa County

Management's Discussion and Analysis
December 31, 2004

This section of the Economic Development Corporation of Chippewa County, annual financial report presents our discussion and analysis of the Economic Development Corporation financial performance during the fiscal year that ended on December 31, 2004. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Revenue increased by \$23,095 (1.6%) over 2003 levels:

General	\$	(40,626)	-68.7%
Airport		+24,969	+ 4.3%
Industrial Park		+22,937	+11.3%
General Motors		+15,815	+ 2.5%

Total operational expenses, exclusive of depreciation, for the year were \$22,355 (1.54%) less than budgeted amounts.

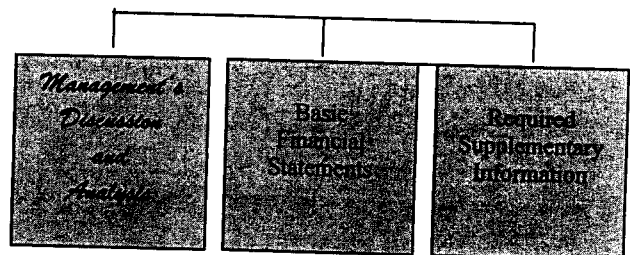
Secured new 5 year lease agreements for 3 buildings, 59,381 SF building area and 7.5145 AC ground lots; and a 1 year lease for 66,600 SF unimproved ground area. These instruments have a combined impact of increasing annual rental income by \$51,296.

The airport participated in the FAA's Airport Improvement Program, totaling \$838,830, for: construction of access roads, replacement of slabs of the commercial terminal apron, replace the airport beacon; as well as airport layout plan and master plan updates.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Economic Development Corporation.

Figure A-1
Components of Chippewa County
Economic Development Corporation
Financial Report



- The financial statements provide both long-term and short-term information about the overall financial status of the Economic Development Corporation, including long term financing that is used to finance capital improvements such as facility restoration and development of new programs.

Economic Development Corporation of Chippewa County

Management's Discussion and Analysis
December 31, 2004

FINANCIAL ANALYSIS OF THE ECONOMIC DEVELOPMENT CORPORATION

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplemental information that further explains and supports the information in the financial statements. Figure A-1 shows how the sections of this annual report are arranged and relate to one another.

Table A-1
Economic Development Corporation of Chippewa County
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2003-2004
	2003	2004	
Current and other assets	\$ 1,073	\$ 1,054	(1.77)%
Capital assets	19,098	19,592	2.59 %
Total assets	20,171	20,646	2.36 %
Current liabilities	726	755	4.00 %
Long-term debt outstanding	156	114	(26.93)%
Total liabilities	882	869	1.48 %
Net assets			
Invested in capital assets, net of related debt	18,551	19,020	2.53 %
Unrestricted	738	756	2.44 %
Total net assets	\$ 19,289	\$ 19,776	2.53 %

Net assets of the Economic Development Corporations increased 2.53% to almost \$20 million. However, only 4% of net assets are not restricted.

Economic Development Corporation of Chippewa County

Management's Discussion and Analysis
December 31, 2004

FINANCIAL ANALYSIS OF THE ECONOMIC DEVELOPMENT CORPORATION (Continued)

Table A-2
Economic Development Corporation of Chippewa County
Changes in Net Assets
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2003-2004
	2003	2004	
Revenues			
Charges for services	\$ 1,463	\$ 1,486	1.58 %
Interest & other	90	1,440	1500.00 %
Total Revenues	1,553	2,926	88.41 %
Expenses			
Operations	1,537	2,414	57.06 %
Interest expense	25	25	0.00 %
Total Expenses	1,562	2,439	56.15 %
Change in net assets	\$ (9)	\$ 487	53.11 %

Total revenues increased 88.41 %, most of which is attributable to a change in grant fund accounting. Total expenses increased by 56.15% due primarily to increased capital outlay expenditures, plus program improvements and inflationary cost increases.

CAPITAL ASSETS

At the end of 2004, the Economic Development Corporation had increased investment in capital assets by \$821,000 including improved buildings, new machinery and equipment.

Table A-3
Economic Development Corporation of Chippewa County
Capital Assets
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2003-2004
	2003	2004	
Improvements			
Land	\$ 8,239	\$ 8,945	8.6 %
Buildings	1,947	1,947	0.0 %
Vehicles and equipment	10,129	10,129	0.0 %
Totals	3,607	4,132	14.6 %
	\$ 23,922	\$ 25,153	5.15 %

Economic Development Corporation of Chippewa County

Management's Discussion and Analysis
December 31, 2004

DEBT OBLIGATIONS

	Corporate Activities		Total Percentage Change 2003-2004
	2003	2004	
Leases payable	\$ 61,230	\$ 38,161	(37.68)%
Notes payable	81,234	62,744	(22.77)%
Revolving line of credit	404,075	470,087	16.34 %

The corporation did borrow additional short term debt during 2004. The corporation renewed its revolving line of credit for \$500,075.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In partnership with MMTSB – Aeronautics, the airport acquired a deicing unit, which will expand winter services available to aircraft, as well as creating a new source of revenue.

Through the U.S. Department of Agriculture's appointment of a local inspector, the airport regained true international status, becoming one of four airports throughout the entire State of Michigan able to accept flights originating in any country; which will result in increased traffic levels and fuel sales revenue.

The airport, with grant assistance of MMTSB – Aeronautics, entered into a risk sharing agreement with Northwest Airlines, which will provide air service improvements to the community – a third flight will be added during the spring of the year, as well as the initiation of non stop service. These upgrades will result in increased passenger counts and fuel sales revenue.

Approximately mid-year 2005, the airport will become eligible to participate in the FAA Passenger Facility Charge Program. This is a new revenue source for the airport, projected to provide \$50,000 in collections during the first year.

The corporation anticipates two five year lease agreements to be executed/commenced during the year.

As a result:

The corporation's 2005 operational budget forecasts an 11.6% increase (\$172,312) in revenues; while projecting a 4.4% (\$62,465) decrease in operation expenses, exclusive of depreciation, as compared with 2004 budget levels.

CONTACTING ECONOMIC DEVELOPMENT CORPORATION OF CHIPPEWA COUNTY FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Economic Development Corporation of Chippewa County finances and to demonstrate Economic Development Corporation of Chippewa County accountability for the money it receives for the construction, improvement and maintenance of development programs. If you have questions about this report or need additional financial information, contact the Economic Development Corporation of Chippewa County administrative office at 5019 W. Airport Drive, Kincheloe, Michigan 49788.

Basic Financial Statements

Economic Development Corporation of Chippewa County

Statement of Net Assets December 31, 2004

ASSETS:		
Current Assets:		
Cash and Equivalents	- Unrestricted	\$ 349,798
	- Restricted	474,608
Interest Receivable		878
Accounts Receivable		204,481
Inventory		24,098
Total Current Assets		<u>1,053,863</u>
Capital Assets:		
Construction in Progress		247,450
Land		1,946,675
Buildings		10,128,618
Vehicles		1,081,800
Equipment		3,050,568
Improvements		8,945,009
Infrastructure (See Note 2)		-
Accumulated Depreciation		(5,808,420)
Total Capital Assets		<u>19,591,700</u>
Total Assets		<u>\$ 20,645,563</u>
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Short Term Note Payable		\$ 470,087
Accounts Payable and Other Liabilities		55,778
Amounts Due to Primary Government		92,901
Current Maturities on Debt Obligations		43,401
Deferred Revenue		92,901
Total Current Liabilities		<u>755,068</u>
Long-Term Liabilities:		
Notes Payable		43,751
Leases Payable		13,753
Vested Sick and Vacation Pay		56,646
Total Long-Term Liabilities		<u>114,150</u>
Total Liabilities		<u>869,218</u>
Net Assets:		
Invested in Capital Assets (net of related debt)		19,020,708
Unrestricted		755,637
Total Net Assets		<u>19,776,345</u>
Total Liabilities and Net Assets		<u>\$ 20,645,563</u>

Economic Development Corporation of Chippewa County

Statement of Revenues, Expenses and Changes in Net Assets Year Ended December 31, 2004

OPERATING REVENUES:	
Leases and Rentals	\$ 296,092
Expense Reimbursements	570,634
Airport Fees	565,308
Others	<u>54,153</u>
Total Operating Revenues	<u>1,486,187</u>
OPERATING EXPENSES:	
Compensation and Fringe Benefits	561,911
Utilities	166,176
Board of Directors	18,708
Travel	3,976
Advertising and Promotion	24,426
Office	7,405
Contracted Services	69,288
Repair and Maintenance	81,984
Depreciation	1,037,005
Insurance	52,714
Supplies	360,405
Other	<u>29,869</u>
Total Operating Expenses	<u>2,413,867</u>
Operating Income (Loss)	<u>(927,680)</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	1,426,708
Interest Income	13,514
Interest Expense	<u>(25,101)</u>
Total Non-Operating Revenues (Expenses)	<u>1,415,121</u>
Changes in Net Assets	487,441
Net Assets, Beginning of Year	<u>19,288,904</u>
NET ASSETS, END OF YEAR	<u>\$ 19,776,345</u>

Economic Development Corporation of Chippewa County

Statement of Cash Flows Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,509,212
Payments to Employees	(552,761)
Payments to Suppliers	(861,190)
Other Receipts (Payments)	(34,957)
Net Cash Provided (Used) by Operating Activities	<u>60,304</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

Nonoperating grants	
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>24,231</u>
	<u>24,231</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Short Term Note	500,075
Capital Grants	1,402,477
Acquisition and Construction of Capital Assets (net)	(1,507,006)
Interest Paid on Notes and Leases Payable	(25,101)
Principal Paid on Notes and Leases Payable	(475,622)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(105,177)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	
Net Cash Provided (Used) by Investing Activities	<u>13,514</u>
	<u>13,514</u>
Net Cash Provided (Used) – All Activities	(7,128)
Cash and Cash Equivalents at Beginning of Year	<u>831,534</u>
Cash and Cash Equivalents at End of Year	<u>\$ 824,406</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ (927,680)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	1,037,005
Change in Assets and Liabilities:	
Receivables, net	23,025
Inventories	(11,162)
Accounts and Other Payables	(33,580)
Deferred Revenue	(27,304)
Net Cash Provided by Operating Activities	<u>\$ 60,304</u>
Other Non-Cash Transactions:	
Purchase of Capital Assets with Grants	<u>\$ 1,152,841</u>

Notes to Financial Statements

Economic Development Corporation of Chippewa County

Notes to Financial Statements
December 31, 2004

NOTE 1 - REPORTING ENTITY:

In accordance with the criteria established by the Governmental Accounting Standards Board, the Economic Development Corporation of Chippewa County is considered a component unit of Chippewa County for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the County to significantly influence operations, the accountability for fiscal matters including the level of County financing and/or moral or legal responsibility for long-term debt. Therefore, the financial statements of the Economic Development Corporation of Chippewa County are presented as the financial statements of a component unit, which is an integral part of the financial reporting oversight unit of the County of Chippewa, Michigan.

The Economic Development Corporation of Chippewa County, organized pursuant to Act 338 of the Michigan Public Acts of 1974, as amended, for the purpose of strengthening and revitalizing the economy of Chippewa County.

The Corporation is a public corporate body, constituting an instrumentality of the County of Chippewa, Michigan, which exercises its prescribed statutory powers, duties and functions within, but independently of Chippewa County. It has been granted the management and control of properties and grants obtained when the Kincheloe Air Force Base was closed.

The Corporation consists of nine members, all appointed by the County, for terms of six years each, but no more than three members appointed shall be members of the County Board.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Economic Development Corporation of Chippewa County, have been prepared on the accrual basis. The significant accounting policies are described below to enhance the usefulness of the financial statements.

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of resources available to the Corporation, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each cost center. The assets, liabilities and net assets of the Corporation are recorded in self-balancing accounts, one major fund as follows:

- General Operations
- Airport
- Industrial Park
- G.M. Operations

Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Accounts Receivable

The Corporation has not established an allowance for uncollectible accounts since, in the opinion of management the amount is not significant.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to fuel purchases as acquired.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in the fund financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., runways, rails, fencing, and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Economic Development Corporation of Chippewa County as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The EDC of Chippewa County has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the straight-line method for all assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Improvements	5 to 20 years
Vehicles	4 to 10 years
Equipment	4 to 10 years
Infrastructure	8 to 30 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

The accumulation of vacation hours for employees is based on time earned at current pay rates. Employees accrued vacation time on a scale based on longevity between 4 and 13 hours per month. Each regular employee hired after 1993 is provided with payment for leave not used of \$40 per day. Administrative employees are provided with 10 hours per month of sick leave benefit. Each employee receives payment for leave not used as of retirement up to a maximum of 960 hours after ten years of service.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS:

Deposits

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 480
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	794,915
Investments	<u>29,011</u>
Total Cash	<u>\$ 824,406</u>

Michigan Compiled Laws, Section 129.91, authorizes the Corporation to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Corporation has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Economic Development Corporation of Chippewa County

Notes to Financial Statements
December 31, 2004

NOTE 3 - CASH AND INVESTMENTS: (Continued)

The risk disclosures for the Corporation deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Insured</u>	<u>Uninsured</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits:				
Checking	\$ 34,683	\$ -	\$ 34,683	\$ 27,453
Certificates	<u>100,000</u>	<u>669,429</u>	<u>769,429</u>	<u>767,462</u>
Total	<u>\$ 134,683</u>	<u>\$ 669,429</u>	<u>\$ 804,112</u>	<u>\$ 794,915</u>

All deposits are in accordance with statutory authority.

Restricted Cash

Cash is reserved in the Building Fund in the amount of \$440,803, which represents the entire cash balance for the fund. All disbursements from this fund are limited to the maintenance, operation, and capital improvements of the industrial park buildings.

Cash is reserved for payment of vested sick and vacation pay in the amount of \$33,805.

Investments

The Corporation's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Corporation or its agent in the Corporation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Corporation's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Corporation's name.

	<u>Category</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	\$ -	\$ -
Uncategorized Investments:					
Municipal Mutual Funds held in trust				<u>\$ 29,011</u>	<u>\$ 29,011</u>
Total				<u>\$ 29,011</u>	<u>\$ 29,011</u>

Economic Development Corporation of Chippewa County

Notes to Financial Statements
December 31, 2004

NOTE 4 - CAPITAL ASSETS:

A summary of capital assets follows:

	<u>01/01/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/04</u>
Assets, not depreciated:				
Construction in progress	\$ -	\$ 247,450	\$ -	\$ 247,450
Land	<u>1,946,675</u>	<u>-</u>	<u>-</u>	<u>1,946,675</u>
Subtotal	<u>1,946,675</u>	<u>247,450</u>	<u>-</u>	<u>2,194,125</u>
Assets, depreciated:				
Vehicles	1,081,800	-	-	1,081,800
Improvements	8,239,434	749,820	(44,245)	8,945,009
Buildings	10,128,618	-	-	10,128,618
Equipment	<u>2,525,116</u>	<u>533,531</u>	<u>(8,079)</u>	<u>3,050,568</u>
Subtotal	<u>21,974,968</u>	<u>1,283,351</u>	<u>(52,324)</u>	<u>23,205,995</u>
Less: accumulated depreciation	<u>(4,823,739)</u>	<u>1,037,005</u>	<u>(52,324)</u>	<u>(5,808,420)</u>
Capital assets, net	<u>\$19,097,904</u>	<u>\$ 1,530,801</u>	<u>\$ -</u>	<u>\$19,591,700</u>

NOTE 5 - LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>Balance 01/01/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/04</u>	<u>Current Maturities</u>
Installment payable to Michigan Aeronautics Commission, payable annually (October) in the amount of \$12,763, including interest of 4.7% per annum. Matures in 2008, general obligation debt.	\$ 56,118	\$ -	\$ 10,118	\$ 46,000	\$ 10,621
Installment Payable to the Michigan Department of Transportation, payable annually, \$8,372 principal plus interest at 2% below prime, unsecured.	<u>25,116</u>	<u>-</u>	<u>8,372</u>	<u>16,744</u>	<u>\$ 8,372</u>
TOTAL LONG-TERM DEBT	<u>\$ 81,234</u>	<u>\$ -</u>	<u>\$ 18,490</u>	<u>\$ 62,744</u>	

A summary of debt service requirements is as follows:

<u>Year</u>	<u>General Obligation Debt</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
2005	18,993	3,398	22,391
2006	19,492	2,271	21,763
2007	11,643	1,120	12,763
2008	<u>12,616</u>	<u>573</u>	<u>13,189</u>
TOTAL	<u>\$ 62,744</u>	<u>\$ 7,362</u>	<u>\$ 70,106</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT:

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Economic Development Corporation participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Chippewa County Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees requires an employer contribution of 8.11% of wages for the EDC. The Corporation will contribute an additional 3%, if an employee contributes 3%.

Annual Pension Costs – For year ended 2004, the Corporation's annual pension cost of \$21,163 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 (should be as of the date of the actuaries report) follows:

	GENERAL		
	2001	2002	2003
Actuarial Value of Assets	\$ 329,624	\$ 357,896	\$ 404,153
Actuarial Accrued Liability	378,255	421,984	461,885
Unfunded AAL	48,631	64,088	57,732
Funded Ratio	87%	85%	88%
Covered Payroll	207,698	225,701	230,614
UAAL as a Percentage of Covered Payroll	23%	28%	25%
	OFFICIALS		
	2001	2002	2003
Actuarial Value of Assets	\$ 184,712	\$ 198,305	\$ 222,354
Actuarial Accrued Liability	228,329	235,548	255,278
Unfunded AAL	43,617	37,243	32,924
Funded Ratio	81%	84%	87%
Covered Payroll	53,965	52,617	54,203
UAAL as a Percentage of Covered Payroll	81%	71%	61%

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT: (Continued)**Defined Contribution Pension Plan**

The Corporation provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the Corporation contributes a varying percentage of gross earnings. Contributions for each employee (plus interest allocated to the employee's account) are fully vested.

The Corporation's total payroll during the current year was \$392,453. The current year contribution was calculated based on covered payroll of \$205,833, resulting in an employer contribution of \$20,808 and employee contributions of \$6,175.

NOTE 7 - LEASES COMMITMENTS:

The Economic Development Corporation entered into two capital lease obligations as listed below:

	<u>Equipment Lease 1</u>	<u>Equipment Lease 2</u>
2005	\$ 12,942	\$ 11,466
2006	<u>13,753</u>	<u>-</u>
Total	<u>\$ 26,695</u>	<u>\$ 11,466</u>
Interest Charges	\$ 2,535	\$ 605
% Interest	6.267%	5.281%
Annual Payment	\$ 14,615	\$ 12,071

NOTE 8 - COMMITMENTS AND CONTINGENCIES:

The Economic Development Corporation has continuing contractual commitments of \$247,450 for master plan engineering and development. It is anticipated the project will be funded with federal and state grants and corporate resources. The project was approximately 5% complete at fiscal year end.

Grants - The Corporation has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Corporation. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Corporation at December 31, 2004.

NOTE 8 - COMMITMENTS AND CONTINGENCIES: (Continued)

Risk Management - The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Corporation joined together with the County and created a public entity risk pool currently operating as a common risk management and insurance program. The Corporation pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Corporation is unable to provide an estimate of the amounts of additional assessments.

NOTE 9 - SHORT TERM NOTES PAYABLE:

The Corporation executed an installment agreement with a local financial institution in the amount of \$500,075. At year end, the amount drawn on the demand obligation was \$470,087. Interest is payable monthly on the outstanding balance at 4.2% and matures in July 2005.

Supplemental Information

Economic Development Corporation of Chippewa County

Combining Statement of Operating Revenues and Expenses For the Year Ended December 31, 2004

	<u>General Operations</u>	<u>Airport</u>	<u>Industrial Park</u>	<u>GM Project</u>	<u>Total</u>
OPERATING REVENUES:					
Leases and Rentals	\$ 430	\$ -	\$ 225,621	\$ 70,041	\$ 296,092
Expense Reimbursements	-	-	-	570,634	570,634
Airport Fees	-	565,308	-	-	565,308
Other	<u>18,062</u>	<u>35,921</u>	<u>-</u>	<u>170</u>	<u>54,153</u>
Total Operating Revenues	<u>18,492</u>	<u>601,229</u>	<u>225,621</u>	<u>640,845</u>	<u>1,486,187</u>
OPERATING EXPENSES:					
Compensation and Fringe Benefits	11,238	292,194	33,715	224,764	561,911
Utilities	28,485	71,485	6,473	59,733	166,176
Board of Directors	18,708	-	-	-	18,708
Travel	1,136	2,840	-	-	3,976
Advertising and Promotion	60	24,366	-	-	24,426
Office	6,316	100	-	989	7,405
Contracted Services	7,532	5,871	-	55,885	69,288
Repair and Maintenance	36,262	11,136	-	34,586	81,984
Depreciation	22,226	837,235	171,895	5,649	1,037,005
Insurance	42,905	9,809	-	-	52,714
Supplies	57,561	282,473	-	20,371	360,405
Other	<u>12,031</u>	<u>13,258</u>	<u>30</u>	<u>4,550</u>	<u>29,869</u>
Total Operating Expenses	<u>244,460</u>	<u>1,550,767</u>	<u>212,113</u>	<u>406,527</u>	<u>2,413,867</u>
Allocations	<u>(244,460)</u>	<u>129,564</u>	<u>14,667</u>	<u>100,229</u>	<u>-</u>
Total Operating Income (Loss)	<u>18,492</u>	<u>(1,079,102)</u>	<u>(1,159)</u>	<u>134,089</u>	<u>(927,680)</u>
NON-OPERATING INCOME:					
Grants	-	1,418,336	8,372	-	1,426,708
Interest Income	13,514	-	-	-	13,514
Interest Expense	<u>-</u>	<u>(21,484)</u>	<u>-</u>	<u>(3,617)</u>	<u>(25,101)</u>
Total Non-Operating Income (Expenses)	<u>13,514</u>	<u>1,396,852</u>	<u>8,372</u>	<u>(3,617)</u>	<u>1,415,121</u>
Net Income (Loss)	<u>\$ 32,006</u>	<u>\$ 317,750</u>	<u>\$ 7,213</u>	<u>\$ 130,472</u>	<u>\$ 487,441</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Economic Development Corporation
of Chippewa County
Kincheloe, Michigan 49788

We have audited the financial statements of the Economic Development Corporation of Chippewa County, as of and for the year ended December 31, 2004, and have issued our report thereon, dated January 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Economic Development Corporation of Chippewa County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Economic Development Corporation of Chippewa County financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners, management and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

January 13, 2005



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT TO MANAGEMENT

Board of Directors
Economic Development Corporation
of Chippewa County
Kincheloe, Michigan 49788

We have audited the financial statements of the Economic Development Corporation of Chippewa County as of and for the year ended December 31, 2004, and have issued our reports thereon. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Economic Development Corporation of Chippewa County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Economic Development Corporation of Chippewa County's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Board are described in Note 2. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by management that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are not material to the current financial statements. Our audit adjustments, individually and in the aggregate, have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Economic Development Corporation of Chippewa County auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Store Data Backup Files Off Site

Backup copies of data files, programs, and operating systems are made daily, weekly, or monthly. However these backup copies are kept at the administrative office. One of the main reasons for creating backup files is to be able to recover in the event of a disaster, such as fire or water damage. This objective is not served if backup files are not kept separate from the regular files. We recommend that weekly and year-end files be properly labeled and stored off premises in a fireproof vault.

Review Insurance Policy for Coverage of Hacker and Virus Attacks

With the Corporation's increased use of the internet and email, the Organization is more vulnerable to disruption from hackers and viruses. For instance, files can be lost or damaged by viruses and communications with customers or vendors can be disrupted if the Organization must shut down its external email because of viruses. Thus, it is important to have adequate insurance coverage of these types of business interruption. The coverage for such matters in the business interruption policy may be minimal. We recommend that the Corporation review the policy with its insurance agent and consider acquiring or increasing such coverage if necessary.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information of the Members of the Board, finance committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 13, 2005